

STORM LAKE COMMUNITY SCHOOL DISTRICT
INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

JUNE 30, 2008

Contents

		<u>Page</u>
Officials		1
Independent Auditor's Report		2-3
Management's Discussion and Analysis (MD&A)		4-13
Basic Financial Statements:	<u>Exhibit</u>	
District-Wide Financial Statements:		
Statement of Net Assets	A	14
Statement of Activities	B	15
Governmental Fund Financial Statements:		
Balance Sheet	C	16
Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Assets	D	17
Statement of Revenues, Expenditures and Changes in Fund Balances	E	18
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds to the Statement of Activities	F	19
Proprietary Fund Financial Statements:		
Statement of Net Assets	G	20
Statement of Revenues, Expenses and Changes in Net Assets	H	21
Statement of Cash Flows	I	22
Notes to Financial Statements		23-33
Required Supplementary Information:		
Budgetary Comparison Schedule of Revenues, Expenditures and Changes in Balances - Budget and Actual - All Governmental Funds and Proprietary Fund		34
Notes to Required Supplementary Information - Budgetary Reporting		35
Other Supplementary Information:	<u>Schedule</u>	
Nonmajor Governmental Funds:		
Combining Balance Sheet	1	36
Combining Statement of Revenues, Expenditures and Changes in Fund Balances	2	37
Schedule of Changes in Student Activity Accounts	3	38-39
Combining Balance Sheet for Capital Project Fund	4	40
Combining Statement of Revenues, Expenditures and Changes in Fund Balance - Capital Project Fund	5	41
Schedule of Revenues by Source and Expenditures by Function - All Governmental Fund Types	6	42
Schedule of Expenditures of Federal Awards	7	43-44
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <u>Government Auditing Standards</u>		45-46
Independent Auditor's Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance		47-48
Schedule of Findings and Questioned Costs		49-55

Storm Lake Community School District

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Board of Education (Before September 2007 Election)		
Mark Schultz	President	2007
Edward McKenna	Vice President	2007
Todd Nicholson	Board Member	2009
Dan Douglas	Board Member	2009
Leslie Cutler	Board Member	2008
Board of Education (After September 2007 Election)		
Dan Douglas	President	2009
Edward McKenna	Vice President	2011
Barb Seiler	Board Member	2011
Todd Nicholson	Board Member	2009
Leslie Cutler	Board Member	2008
School Officials		
Paul Tedesco	Superintendent	2008
Trudy Peterson	Business Manager/ District Secretary/ Treasurer	2008
Ahlers & Cooney, P.C.	Attorney	2008
Cornwall, Avery, Bjornstad & Scott	Attorney	2008

NOLTE, CORNMAN & JOHNSON P.C.
Certified Public Accountants
(a professional corporation)
117 West 3rd Street North, Newton, Iowa 50208-3040
Telephone (641) 792-1910

INDEPENDENT AUDITOR'S REPORT

To the Board of Education of the
Storm Lake Community School District:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Storm Lake Community School District, Storm Lake, Iowa, as of and for the year ended June 30, 2008, which collectively comprise the District's basic financial statements listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Storm Lake Community School District at June 30, 2008, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated March 6, 2009 on our consideration of Storm Lake Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 13 and 34 through 35 are not required parts of the basic financial statements, but are supplementary

Members American Institute & Iowa Society of Certified Public Accountants

information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Storm Lake Community School District's basic financial statements. Another auditor previously audited the financial statements for the four years ended June 30, 2007, (none of which are presented herein) in accordance with the standards referred to in the second paragraph of this report and unqualified opinions were expressed on those financial statements. The supplemental information included in Schedules 1 through 7, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Nolte, Cornman & Johnson PC
NOLTE, CORNMAN & JOHNSON, P.C.

March 6, 2009

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Storm Lake Community School District provides the Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2008. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

2008 FINANCIAL HIGHLIGHTS

- General Fund revenues increased from \$18,432,934 in fiscal 2007 to \$20,088,025 in fiscal 2008, while General Fund expenditures increased from \$18,456,168 in fiscal 2007 to \$20,275,746 in fiscal 2008. This resulted in a decrease in the District's General Fund balance from \$1,549,901 in fiscal 2007 to a balance of \$1,362,737 in fiscal 2008, which is a 12.08% decrease from the prior year.
- The increase in General Fund revenues was attributable to increases in state and local sources in fiscal 2008. The increase in expenditures was due primarily to increases in negotiated salaries and benefits as well as increases in expenditures funded by grants received by the District.
- The District's solvency ratio (unreserved-undesignated fund balance/general fund revenues) decreased from 7.5% at the end of fiscal 2007 to 6.5% at the end of fiscal 2008. Although the District's solvency ratio decreased during the year, it is still within the State School Budget Review Committee's recommendation of a solvency ratio between 5% and 10%.
- The District issued an additional \$5,600,000 in revenue bonds during the fiscal year to pay for construction costs associated with the new elementary building. The District's total bonded debt increased by \$5,115,000 during the current fiscal year. The total outstanding bonded indebtedness at the end of the fiscal year is \$14,915,000. The life of the bonds extends until the year 2023.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the District's financial activities.

The Government-wide Financial Statements consist of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of Storm Lake Community School District as a whole and present an overall view of the District's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report Storm Lake Community School District's operations in more detail than the government-wide statements by providing information about the most significant funds. The remaining statements provide financial information about activities for which Storm Lake Community School District acts solely as an agent or custodial for the benefit of those outside of School District.

Notes to the financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the District's budget for the year.

Other Supplementary Information provides detailed information about the nonmajor funds. In addition, the Schedule of Expenditures of Federal Awards provides detail of various programs benefiting the District.

Figure A-1 shows how the various parts of this annual report are arranged and relate to one another.

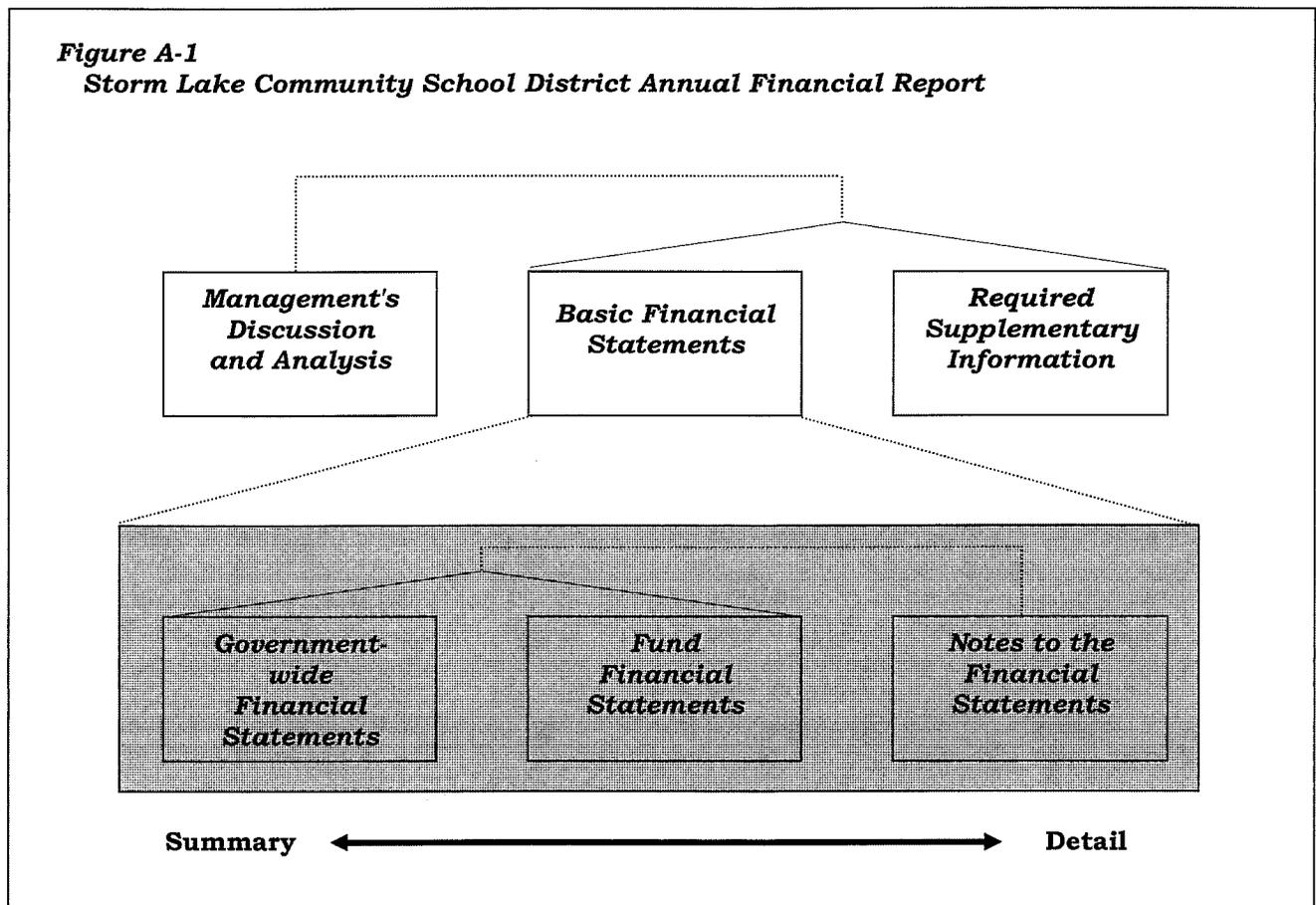


Figure A-2 summarizes the major features of the District’s financial statements, including the portion of the District’s activities they cover and the types of information they contain.

Figure A-2
Major Features of the Government-wide and Fund Financial Statements

	Government-wide Statements	Fund Statements	
		Governmental Funds	Proprietary Funds
Scope	Entire district (except fiduciary funds)	The activities of the district that are not proprietary or fiduciary, such as special education and building maintenance	Activities the district operates similar to private businesses: food services and adult education
Required financial statements	<ul style="list-style-type: none"> • Statement of net assets • Statement of activities 	<ul style="list-style-type: none"> • Balance sheet • Statement of revenues, expenditures, and changes in fund balances 	<ul style="list-style-type: none"> • Statement of Net Assets • Statement of revenues, expenses and changes in net assets • Statement of cash flows
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus
Type of asset/ liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, and short-term and long-term
Type of inflow/ outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid

Government-wide Financial Statements

The government-wide financial statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities, regardless of when cash is received or paid.

The two government-wide financial statements report the District's net assets and how they have changed. Net assets – the difference between the District's assets and liabilities – are one way to measure the District's financial health or position. Over time, increases or decreases in the District's net assets are an indicator of whether financial position is improving or deteriorating. To assess the District's overall health, additional non-financial factors, such as changes in the District's property tax base and the condition of school buildings and other facilities, need to be considered.

In the government-wide financial statements, the District's activities are divided into two categories:

- *Governmental activities:* Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property tax and state aid finance most of these activities.
- *Business-type activities:* The District charges fees to help cover the costs of certain services it provides. The District's school nutrition program is included here.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs.

Some funds are required by state law and by bond covenants. The District establishes other funds to control and manage money for particular purposes, such as accounting for student activity funds or to show that it is properly using certain revenues such as federal grants.

The District has two kinds of funds:

- 1) *Governmental funds:* Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs.

The District's governmental funds include the General Fund, Special Revenue Funds, Capital Projects Fund and Debt Service.

The required financial statements for the governmental funds include a balance sheet and a statement of revenues, expenditures and changes in fund balances.

- 2) *Proprietary funds:* Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the government-wide financial statements. The District's enterprise funds, one type of proprietary fund, are the

same as its business-type activities, but provide more detail and additional information, such as cash flows. The District currently has two Enterprise Funds, the School Nutrition Fund and the Community Education Fund.

The District's internal service fund (another type of proprietary fund) is the same as its governmental activities but provide more detail and additional information, such as cash flows. The District has two internal service funds: Self-funded Insurance and the Flexible Spending Plan.

The required financial statements for the proprietary funds include a statement of net assets, a statement of revenues, expenses and changes in net assets and a statement of cash flows.

Reconciliations between the government-wide financial statements and the fund financial statements follow the fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Figure A-3 below provides a summary of the District's net assets at June 30, 2008 compared to June 30, 2007.

Figure A-3
Condensed Statement of Net Assets

	Governmental Activities		Business-type Activities		Total District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2008	2007	2008	2007	2008	2007	2007-08
Current and other assets	\$ 27,900,846	22,759,313	171,157	183,742	28,072,003	22,943,055	22.36%
Capital assets	14,964,086	8,165,039	65,766	120,583	15,029,852	8,285,622	81.40%
Total assets	42,864,932	30,924,352	236,923	304,325	43,101,855	31,228,677	38.02%
Long-term obligations	14,966,081	9,800,000	0	0	14,966,081	9,800,000	52.72%
Other liabilities	11,765,041	8,455,661	19,198	5,000	11,784,239	8,460,661	39.28%
Total liabilities	26,731,122	18,255,661	19,198	5,000	26,750,320	18,260,661	46.49%
Net assets:							
Invested in capital assets, net of related debt	8,614,545	6,920,039	65,766	120,583	8,680,311	7,040,622	23.29%
Restricted	5,133,448	3,723,456	0	0	5,133,448	3,723,456	37.87%
Unrestricted	2,385,817	2,025,196	151,959	178,742	2,537,776	2,203,938	15.15%
Total net assets	\$ 16,133,810	12,668,691	217,725	299,325	16,351,535	12,968,016	26.09%

The District's combined net assets increased by 26.09%, or \$3,383,519, over the prior year. The largest portion of the District's net assets is the invested in capital assets, net of related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets.

Restricted net assets represent resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net assets increased 37.87%, or \$1,409,992, over the prior year. The increase in restricted net assets is mainly attributable to the increase in fund balance of the Capital Projects Fund.

Unrestricted net assets – the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements – increased \$333,838, or 15.15%.

Figure A-4 shows the changes in net assets for the year ended June 30, 2008 compared to the year ended June 30, 2007.

Figure A-4
Changes of Net Assets

	Governmental		Business-type		Total		Total
	Activities		Activities		School District		Change
	June 30,		June 30,		June 30,		June 30,
	2008	2007	2008	2007	2008	2007	2007-08
Revenues:							
Program revenues:							
Charges for services	\$ 1,506,042	1,149,610	574,627	584,713	2,080,669	1,734,323	19.97%
Operating grants and contributions and restricted interest	4,394,010	4,438,152	652,595	589,229	5,046,605	5,027,381	0.38%
Capital grants and contributions and restricted interest	712,120	0	0	0	712,120	0	100.00%
General revenues:							
Property tax	5,138,648	5,027,096	0	0	5,138,648	5,027,096	2.22%
Income surtax	174,073	237,489	0	0	174,073	237,489	-26.70%
Local option sales and services tax	1,171,134	1,207,010	0	0	1,171,134	1,207,010	-2.97%
Unrestricted state grants	9,967,228	8,884,369	0	0	9,967,228	8,884,369	12.19%
Other	864,420	48,567	1,442	0	865,862	48,567	1682.82%
Total revenues	23,927,675	20,992,293	1,228,664	1,173,942	25,156,339	22,166,235	13.49%
Program expenses:							
Governmental activities:							
Instructional	13,693,326	12,089,485	0	0	13,693,326	12,089,485	13.27%
Support services	5,374,264	5,728,798	137,698	0	5,511,962	5,728,798	-3.79%
Non-instructional programs	6,070	2,988	1,172,566	1,199,336	1,178,636	1,202,324	-1.97%
Other expenses	1,388,896	1,706,503	0	0	1,388,896	1,706,503	-18.61%
Total expenses	20,462,556	19,527,774	1,310,264	1,199,336	21,772,820	20,727,110	5.05%
Changes in net assets	3,465,119	1,464,519	(81,600)	(25,394)	3,383,519	1,439,125	135.11%
Beginning net assets	12,668,691	11,204,172	299,325	324,719	12,968,016	11,528,891	12.48%
Ending net assets	\$ 16,133,810	12,668,691	217,725	299,325	16,351,535	12,968,016	26.09%

In fiscal 2008, property tax, income surtax, local option sales and services tax and unrestricted state grants account for 68.75% of the revenue from governmental activities while charges for service and sales and operating grants and contributions account for 99.88% of the revenue from business type activities.

The District's total revenues were approximately \$25.16 million of which \$23.93 million was for governmental activities and approximately \$1.23 million was for business type activities.

As shown in Figure A-4, the District as a whole experienced a 13.49% increase in revenues and a 5.05% increase in expenses. Unrestricted state grants increased \$1,082,859 and property tax increased \$111,552 to fund increases in expenditures. The increase in expenses related to increases in the negotiated salary and benefits as well as increases in expenses funded by grants received by the District.

Governmental Activities

Revenues for governmental activities were \$23,927,675 and expenses were \$20,462,556.

The following table presents the total and net cost of the District's major governmental activities: instruction, support services and other expenses.

Figure A-5
Total and Net Cost of Governmental Activities

	Total Cost of Services			Net Cost of Services		
	2008	2007	Change 2007-08	2008	2007	Change 2007-08
Instruction	\$ 13,693,326	12,089,485	13.27%	8,533,652	7,318,790	16.60%
Support services	5,374,264	5,728,798	-6.19%	5,345,942	5,720,285	-6.54%
Non-instructional	6,070	2,988	103.15%	6,070	2,988	103.15%
Other expenses	1,388,896	1,706,503	-18.61%	(35,280)	915,949	-103.85%
Totals	\$ 20,462,556	19,527,774	4.79%	13,850,384	13,958,012	-0.77%

- The cost financed by users of the District's programs was \$1,506,042.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$5,106,130.
- The net cost of governmental activities was financed with \$5,138,648 in property tax, \$174,073 in income surtax, \$1,171,134 in local option sales and service tax, \$9,967,228 in state grants and \$684,394 in interest income.

Business-Type Activities

Revenues of the District's business-type activity were \$1,228,664 and expenses were \$1,310,264. The District's business-type activity is the School Nutrition Fund and the Community Education Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements.

INDIVIDUAL FUND ANALYSIS

As previously noted, the Storm Lake Community School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The financial performance of the District as a whole is reflected in its governmental funds as well. As the District completed the year, its governmental funds reported combined fund balances of \$15,010,163, above last year's ending fund balances of \$13,441,517. The primary reason for the increase in combined fund balances is because of the increase in fund balance of the Capital Projects Fund.

Governmental Fund Highlights

- The District's General Fund financial position is the product of many factors. Growth during the year in state and local source revenues resulted in an increase in revenues. The increase in salaries and benefits is one of the reasons for the increase in expenditures. The increase in revenues was not enough to offset the increase in expenditures; the net result was a decrease in fund balance from \$1,549,901 in fiscal 2007 to \$1,362,737 in fiscal 2008.
- The Capital Projects fund balance overall increased from \$11,381,596 in fiscal 2007 to \$13,171,774 in fiscal 2008. The increase in fund balance is the result of monies left for construction from the bond issues over the previous two years and the previous years sales tax collections.

Proprietary Fund Highlights

The School Nutrition Fund's increase in revenues was not enough to offset the continued increase in food costs and salaries and benefits. Overall, net assets decreased from \$275,119 at June 30, 2007 to \$195,225 at June 30, 2008, representing a decrease of 29.04%.

Initially, the Community Education Fund's increase in revenues was enough to offset the costs associated with operating the community education programs. Overall, net assets decreased from \$24,206 at June 30, 2007 to \$22,500 at June 30, 2008, representing a decrease of 7.05%. The decrease in fund balance is attributable to an error in the way fixed assets for the fund were being accounted for in previous years.

BUDGETARY HIGHLIGHTS

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds. Although the budget document presents functional area expenditures by fund, the legal level of control is at the aggregated functional level, not at the fund or fund type level. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the cash basis. A schedule showing the original and final budget amounts compared to the District's actual financial activity is included in the required supplementary information section of this report. Since the District does not adopt a budget for individual funds, budgets for the General Fund and major Special Revenue Funds are not presented in the budgetary comparison on pages 35 and 36.

The District's revenues were \$1,047,390 more than budgeted revenues, a variance of approximately 4%. The most significant variances resulted from the District receiving more in federal sources than originally anticipated.

Total expenditures were less than budgeted, due primarily to the District's budget for the General Fund. It is the District's practice to budget expenditures at the maximum authorized spending authority for the General Fund. The District then manages or controls General Fund spending through its line-item budget. As a result, the District's certified budget should always exceed actual expenditures for the year.

The District amended the 2007-08 budget as follows:

Increased the support services function from \$6,108,984 to \$8,608,984 (\$2,500,000) to meet actual expenditures.

Decreased the other expenditures function from \$18,799,790 to \$16,299,790 (\$2,500,000) to meet actual expenditures.

The District's total requirements and tax levies were not affected by this amendment.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2008, the District had invested \$15,029,852, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities and transportation equipment. (See Figure A-6) This amount represents a net increase of 81.40% from last year. More detailed information about capital assets is available in Note 5 to the financial statements. Depreciation expense for the year was \$369,055.

The original cost of the District's capital assets was \$22,412,755. Governmental funds account for \$22,021,154 with the remainder of \$391,601 in the Proprietary, School Nutrition Fund.

The largest percentage change in capital asset activity during the year occurred in the construction in progress category. The District had no construction in progress at the end of fiscal 2007. At June 30, 2008, the District's construction in progress totaled \$6,442,718. This increase is due to the continued construction of the new elementary building.

Figure A-6
Capital Assets, Net of Depreciation

	Governmental Activities		Business-type Activities		Total District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2008	2007	2008	2007	2008	2007	2007-08
Land	\$ 860,325	860,325	0	0	860,325	860,325	0.00%
Construction in progress	6,442,718	0	0	0	6,442,718	0	100.00%
Buildings	5,690,113	5,876,556	0	0	5,690,113	5,876,556	-3.17%
Land improvements	304,415	330,024	0	0	304,415	330,024	-7.76%
Machinery and equipment	1,666,515	1,098,134	65,766	120,583	1,732,281	1,218,717	42.14%
Total	\$ 14,964,086	8,165,039	65,766	120,583	15,029,852	8,285,622	81.40%

Long-Term Debt

At June 30, 2008, the District had \$14,966,081 in general obligation bonds, revenue bonds, and other long-term debt outstanding. (See Figure A-7) More detailed information about the District's long-term liabilities is available in Note 6 to the financial statements.

Figure A-7
Outstanding Long-Term Obligations

	Total School District		Total Change
	June 30,		June 30,
	2008	2007	2007-08
General obligation bonds	\$ 6,260,000	6,745,000	-7.2%
Revenue bonds	8,655,000	3,055,000	183.3%
Compensated absences	51,081	0	100.0%
Total	\$ 14,966,081	9,800,000	52.7%

ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

At the time these financial statements were prepared and audited, the District was aware of existing circumstances that could affect its financial health in the future:

- On July 1, 2007 IPERS implemented an employers' contribution increase over a 4-year period. The employers' portion of IPERS increased from 5.75% to 6.05% on July 1, 2007, and will increase to 6.35% on July 1, 2008, to 6.65% on July 1, 2009 and finally to 6.95% on July 1, 2010. This will increase the Storm Lake Community Schools employer benefit costs over the next four years.
- The District experienced a slight decrease in enrollment for 2007-08. Early projections would indicate an increase in official enrollment for 2008-09. The District is optimistic that enrollment numbers will remain steady or increase slightly in the future.

-
- Construction continues on the new \$15.3 million Elementary building project, with an anticipated completion date of June 2009.
 - The District's Elementary 21st Century Learning Center (Before & After School Program) & Reading First grants will conclude in fiscal year 2009. The District will be seeking additional grant/revenue sources to help sustain these successful programs.
 - The District was identified as a recipient of a 21st Century Learning Center Grant to fund the Middle School Before & After School program. Beginning in fiscal year 2007-08, the District will receive \$622,066 over five years.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide the District's citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Trudy Peterson, Business Manager/District Secretary/Treasurer, Storm Lake Community School District, 419 Lake Avenue, Storm Lake, Iowa, 50588.

BASIC FINANCIAL STATEMENTS

STORM LAKE COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2008

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and pooled investments:			
ISCAP(Note 4)	\$ 3,771,917	0	3,771,917
Other	16,661,071	139,693	16,800,764
Receivables:			
Property tax:			
Delinquent	49,311	0	49,311
Succeeding year	5,769,816	0	5,769,816
Income surtax	188,255	0	188,255
Accounts	262,565	8,145	270,710
Accrued ISCAP interest (Note 4)	27,085	0	27,085
Due from other governments	1,170,826	9,453	1,180,279
Inventories	0	13,866	13,866
Capital assets, net of accumulated depreciation (Note 5)	14,964,086	65,766	15,029,852
TOTAL ASSETS	42,864,932	236,923	43,101,855
LIABILITIES			
Accounts payable	419,328	8,353	427,681
Salaries and benefits payable	1,600,515	2,507	1,603,022
ISCAP warrants payable (Note 4)	3,750,000	0	3,750,000
ISCAP interest payable (Note 4)	29,276	0	29,276
ISCAP unamortized premium	43,671	0	43,671
Accrued interest payable	152,435	0	152,435
Deferred revenue:			
Succeeding year property tax	5,769,816	0	5,769,816
Unearned revenue	0	8,338	8,338
Long-term liabilities (Note 6):			
Portion due within one year:			
General obligation bonds payable	500,000	0	500,000
Compensated absences payable	51,081	0	51,081
Portion due after one year:			
General obligation bonds payable	5,760,000	0	5,760,000
Revenue bonds payable	8,655,000	0	8,655,000
TOTAL LIABILITIES	26,731,122	19,198	26,750,320
NET ASSETS			
Invested in capital assets, net of related debt	8,614,545	65,766	8,680,311
Restricted for:			
Talented and gifted	27,026	0	27,026
Beginning administrator mentoring	750	0	750
Non-public textbook aid	4,224	0	4,224
Teacher quality/Professional development	5,567	0	5,567
Market factor incentives	13,914	0	13,914
Management levy	236,503	0	236,503
Physical plant and equipment levy	133,431	0	133,431
Capital projects	4,606,315	0	4,606,315
Debt service	25,489	0	25,489
Other special revenue purposes	80,229	0	80,229
Unrestricted	2,385,817	151,959	2,537,776
TOTAL NET ASSETS	\$ 16,133,810	217,725	16,351,535

SEE NOTES TO FINANCIAL STATEMENTS.

STORM LAKE COMMUNITY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2008

	Program Revenues				Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest	Govern- mental Activities	Business- Type Activities	Total
Functions/Programs:							
Governmental activities:							
Instruction:							
Regular instruction	\$ 8,172,522	407,613	3,533,824	.0	(4,231,085)	0	(4,231,085)
Special instruction	2,916,518	787,433	126,172	0	(2,002,913)	0	(2,002,913)
Other instruction	2,604,286	304,632	0	0	(2,299,654)	0	(2,299,654)
	<u>13,693,326</u>	<u>1,499,678</u>	<u>3,659,996</u>	<u>0</u>	<u>(8,533,652)</u>	<u>0</u>	<u>(8,533,652)</u>
Support services:							
Student services	660,383	0	0	0	(660,383)	0	(660,383)
Instructional staff services	790,046	0	0	0	(790,046)	0	(790,046)
Administration services	2,103,642	0	0	0	(2,103,642)	0	(2,103,642)
Operation and maintenance of plant services	1,262,715	0	0	0	(1,262,715)	0	(1,262,715)
Transportation services	557,478	6,364	21,958	0	(529,156)	0	(529,156)
	<u>5,374,264</u>	<u>6,364</u>	<u>21,958</u>	<u>0</u>	<u>(5,345,942)</u>	<u>0</u>	<u>(5,345,942)</u>
Non-instructional programs:							
Food service operations	3,541	0	0	0	(3,541)	0	(3,541)
Community service operations	2,529	0	0	0	(2,529)	0	(2,529)
	<u>6,070</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>(6,070)</u>	<u>0</u>	<u>(6,070)</u>
Other expenditures:							
Facilities acquisitions	0	0	0	712,120	712,120	0	712,120
Long-term debt interest	458,886	0	0	0	(458,886)	0	(458,886)
AEA flowthrough	712,056	0	712,056	0	0	0	0
Depreciation (unallocated)*	217,954	0	0	0	(217,954)	0	(217,954)
	<u>1,388,896</u>	<u>0</u>	<u>712,056</u>	<u>712,120</u>	<u>35,280</u>	<u>0</u>	<u>35,280</u>
Total governmental activities	20,462,556	1,506,042	4,394,010	712,120	(13,850,384)	0	(13,850,384)
Business-Type activities:							
Instruction:							
Regular instruction	7,077	0	0	0	0	(7,077)	(7,077)
Support services:							
Administration services	107,830	0	0	0	0	(107,830)	(107,830)
Operation and maintenance of plant services	22,791	0	0	0	0	(22,791)	(22,791)
Total support services	<u>137,698</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>(137,698)</u>	<u>(137,698)</u>
Non-instructional programs:							
Nutrition services	1,085,822	361,804	652,595	0	0	(71,423)	(71,423)
Community education services	86,744	212,823	0	0	0	126,079	126,079
Total non-instructional programs:	<u>1,172,566</u>	<u>574,627</u>	<u>652,595</u>	<u>0</u>	<u>0</u>	<u>54,656</u>	<u>54,656</u>
Total business-type activities	1,310,264	574,627	652,595	0	0	(83,042)	(83,042)
Total	\$ 21,772,820	2,080,669	5,046,605	712,120	(13,850,384)	(83,042)	(13,933,426)
General Revenues:							
Property tax levied for:							
General purposes					\$ 4,360,307	0	4,360,307
Debt service					498,674	0	498,674
Capital outlay					279,667	0	279,667
Income surtax					174,073	0	174,073
Local option sales and services					1,171,134	0	1,171,134
Unrestricted state grants					9,967,228	0	9,967,228
Unrestricted investment earnings					684,394	1,442	685,836
Other					180,026	0	180,026
Total general revenues					<u>17,315,503</u>	<u>1,442</u>	<u>17,316,945</u>
Changes in net assets					3,465,119	(81,600)	3,383,519
Net assets beginning of year					<u>12,668,691</u>	<u>299,325</u>	<u>12,968,016</u>
Net assets end of year					\$ <u>16,133,810</u>	<u>217,725</u>	<u>16,351,535</u>

* This amount excludes the depreciation that is included in the direct expense of various programs.

SEE NOTES TO FINANCIAL STATEMENTS.

STORM LAKE COMMUNITY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2008

	General	Capital Projects	Other	Total
			Nonmajor Governmental Funds	
ASSETS				
Cash and pooled investments:				
ISCAP(Note 4)	\$ 3,771,917	0	0	3,771,917
Other	2,322,369	12,993,324	255,556	15,571,249
Receivables:				
Property tax				
Delinquent	39,865	0	9,446	49,311
Succeeding year	4,658,349	0	1,111,467	5,769,816
Income surtax	62,752	0	125,503	188,255
Accounts	3,218	0	259,347	262,565
Accrued ISCAP interest (Note 4)	27,085	0	0	27,085
Due from other governments	989,893	180,933	0	1,170,826
TOTAL ASSETS	\$ 11,875,448	13,174,257	1,761,319	26,811,024
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 368,148	2,483	48,697	419,328
Salaries and benefits payable	1,600,515	0	0	1,600,515
ISCAP warrants payable (Note 4)	3,750,000	0	0	3,750,000
ISCAP interest payable (Note 4)	29,276	0	0	29,276
ISCAP unamortized premium	43,671	0	0	43,671
Deferred revenue:				
Succeeding year property tax	4,658,349	0	1,111,467	5,769,816
Income surtax	62,752	0	125,503	188,255
Total liabilities	10,512,711	2,483	1,285,667	11,800,861
Fund balances:				
Reserved for:				
Construction	0	8,565,459	0	8,565,459
Talented and gifted	27,026	0	0	27,026
Beginning administrator mentoring	750	0	0	750
Non-public textbook aid	4,224	0	0	4,224
Teacher quality/Professional development	5,567	0	0	5,567
Market factor incentives	13,914	0	0	13,914
Unreserved:				
Undesignated:				
General	1,311,256	0	0	1,311,256
Management levy	0	0	236,503	236,503
Physical plant and equipment levy	0	0	133,431	133,431
Capital projects	0	4,606,315	0	4,606,315
Debt service	0	0	25,489	25,489
Other special revenue purposes	0	0	80,229	80,229
Total fund balances	1,362,737	13,171,774	475,652	15,010,163
TOTAL LIABILITIES AND FUND BALANCES	\$ 11,875,448	13,174,257	1,761,319	26,811,024

SEE NOTES TO FINANCIAL STATEMENTS.

STORM LAKE COMMUNITY SCHOOL DISTRICT
 RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
 TO THE STATEMENT OF NET ASSETS
 JUNE 30, 2008

Total fund balances of governmental funds (page 16)	\$	15,010,163
 <i>Amounts reported for governmental activities in the statement of net assets are different because:</i>		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.		14,964,086
Blending of the Internal Service Funds to be reflected on an entity-wide basis.		1,089,822
Accounts receivable income surtax, are not yet available to finance expenditures of the current fiscal period.		188,255
Accrued interest payable on long-term liabilities is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds.		(152,435)
Long-term liabilities, including general obligation bonds, revenue bonds and compensated absences are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.		<u>(14,966,081)</u>
Net assets of governmental activities (page 14)	\$	<u>16,133,810</u>

SEE NOTES TO FINANCIAL STATEMENTS.

STORM LAKE COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2008

	General	Capital Projects	Other Nonmajor Governmental Funds	Total
REVENUES:				
Local sources:				
Local tax	\$ 4,218,122	1,171,134	1,127,347	6,516,603
Tuition	1,156,687	0	0	1,156,687
Other	363,824	528,740	1,044,505	1,937,069
State sources	12,220,179	0	672	12,220,851
Federal sources	2,129,213	0	0	2,129,213
Total revenues	<u>20,088,025</u>	<u>1,699,874</u>	<u>2,172,524</u>	<u>23,960,423</u>
EXPENDITURES:				
Current:				
Instruction:				
Regular instruction	8,330,888	0	63,847	8,394,735
Special instruction	3,034,073	0	29,248	3,063,321
Other instruction	2,377,707	0	302,028	2,679,735
	<u>13,742,668</u>	<u>0</u>	<u>395,123</u>	<u>14,137,791</u>
Support services:				
Student services	715,787	0	2,793	718,580
Instructional staff services	778,063	0	67,032	845,095
Administration services	2,087,988	9,618	57,209	2,154,815
Operation and maintenance of plant services	1,719,992	0	124,244	1,844,236
Transportation services	516,663	0	119,185	635,848
	<u>5,818,493</u>	<u>9,618</u>	<u>370,463</u>	<u>6,198,574</u>
Non-instructional programs:				
Food service operations	0	0	3,541	3,541
Community service operations	2,529	0	0	2,529
	<u>2,529</u>	<u>0</u>	<u>3,541</u>	<u>6,070</u>
Other expenditures:				
Facilities acquisitions	0	5,194,569	924,740	6,119,309
Long-term debt:				
Principal	0	0	485,000	485,000
Interest and fiscal charges	0	0	326,352	326,352
AEA flowthrough	712,056	0	0	712,056
	<u>712,056</u>	<u>5,194,569</u>	<u>1,736,092</u>	<u>7,642,717</u>
Total expenditures	<u>20,275,746</u>	<u>5,204,187</u>	<u>2,505,219</u>	<u>27,985,152</u>
Deficiency of revenues under expenditures	(187,721)	(3,504,313)	(332,695)	(4,024,729)
Other financing sources(uses):				
Transfer in	0	5,192,091	298,327	5,490,418
Transfer out	0	(5,490,418)	0	(5,490,418)
Issuance of revenue bonds	0	5,600,000	0	5,600,000
Premium on bond issuance	0	45,193	0	45,193
Discount on bond issuance	0	(34,081)	0	(34,081)
Bond issuance fees	0	(18,294)	0	(18,294)
Sale of equipment	557	0	0	557
Total other financing sources(uses)	<u>557</u>	<u>5,294,491</u>	<u>298,327</u>	<u>5,593,375</u>
Net change in fund balances	(187,164)	1,790,178	(34,368)	1,568,646
Fund balance beginning of year	1,549,901	11,381,596	510,020	13,441,517
Fund balance end of year	<u>\$ 1,362,737</u>	<u>13,171,774</u>	<u>475,652</u>	<u>15,010,163</u>

SEE NOTES TO FINANCIAL STATEMENTS.

STORM LAKE COMMUNITY SCHOOL DISTRICT
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
 TO THE STATEMENT OF ACTIVITIES
 JUNE 30, 2008

Net change in fund balances - total governmental funds (page 18) \$ 1,568,646

*Amounts reported for governmental activities in the
 statement of activities are different because:*

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. Capital outlay expenditures, depreciation expense and loss on asset disposal in the current year are as follows:

Expenditures for capital assets	\$ 7,126,237	
Depreciation expense	(325,295)	
Loss on asset disposal	(1,895)	6,799,047

Net change in Internal Service Funds charged back against expenditures made for the flex benefit program at an entity-wide basis. 421,607

Proceeds from issuing long-term liabilities provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Repayment of long-term liabilities is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. Current year repayments and issuances are as follows:

Issued	\$ (5,600,000)	
Repaid	485,000	(5,115,000)

Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due. (125,352)

Income surtax account receivable is not available to finance expenditures of the current year period in the governmental funds. (32,748)

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.
 Compensated absences (51,081)

Changes in net assets of governmental activities (page 15) \$ 3,465,119

SEE NOTES TO FINANCIAL STATEMENTS.

STORM LAKE COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2008

	Business-type Activities - Enterprise Funds			Governmental Activities - Internal Service Fund
	School Nutrition	Community Education	Total	
	<hr/>			
Assets				
Cash and pooled investments	\$ 122,230	17,463	139,693	1,089,822
Due from other governments	9,453	0	9,453	0
Accounts receivable	4,677	3,468	8,145	0
Inventories	13,866	0	13,866	0
Capital assets, net of accumulated depreciation (Note 4)	60,622	5,144	65,766	0
Total assets	<hr/> 210,848	<hr/> 26,075	<hr/> 236,923	<hr/> 1,089,822
Liabilities				
Accounts payable	7,285	1,068	8,353	0
Salaries and benefits payable	0	2,507	2,507	0
Unearned revenue	8,338	0	8,338	0
Total liabilities	<hr/> 15,623	<hr/> 3,575	<hr/> 19,198	<hr/> 0
Net assets				
Invested in capital assets	60,622	5,144	65,766	0
Unrestricted	134,603	17,356	151,959	1,089,822
Total net assets	<hr/> \$ 195,225	<hr/> 22,500	<hr/> 217,725	<hr/> 1,089,822

SEE NOTES TO FINANCIAL STATEMENTS.

STORM LAKE COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2008

	Business-type Activities -			Governmental
	Enterprise Funds			Activities -
	School Nutrition	Community Education	Total	Internal Service Fund
OPERATING REVENUE:				
Local sources:				
Charges for services	\$ 361,620	199,582	561,202	0
Donations	0	13,230	13,230	0
Miscellaneous	184	11	195	2,426,508
TOTAL OPERATING REVENUES	361,804	212,823	574,627	2,426,508
OPERATING EXPENSES:				
Instruction:				
Regular:				
Salaries	0	6,252	6,252	0
Benefits	0	825	825	0
Total instruction	0	7,077	7,077	0
Support services:				
Administration services:				
Salaries	0	81,197	81,197	0
Benefits	0	24,097	24,097	2,898
Services	0	2,536	2,536	2,008,076
Operation and maintenance of plant services:				
Services	9,961	0	9,961	0
Supplies	12,830	0	12,830	0
Total support services	22,791	107,830	130,621	2,010,974
Non-instructional programs:				
Food service operations:				
Salaries	49,275	0	49,275	0
Benefits	19,411	0	19,411	0
Services	350,937	0	350,937	0
Supplies	609,333	0	609,333	0
Depreciation	43,760	0	43,760	0
Total food service operations	1,072,716	0	1,072,716	0
Community service operations:				
Salaries	0	33,659	33,659	0
Benefits	0	11,045	11,045	0
Services	0	8,686	8,686	0
Supplies	0	33,354	33,354	0
Total community service operations	0	86,744	86,744	0
Total non-instructional	1,072,716	86,744	1,159,460	0
TOTAL OPERATING EXPENSES	1,095,507	201,651	1,297,158	2,010,974
OPERATING INCOME (LOSS)	(733,703)	11,172	(722,531)	415,534
NON-OPERATING REVENUES:				
State sources	10,343	0	10,343	0
Federal sources	642,252	0	642,252	0
Interest income	1,214	228	1,442	6,073
TOTAL NON-OPERATING REVENUES	653,809	228	654,037	6,073
Change in net assets before other financing uses	(79,894)	11,400	(68,494)	421,607
Other financing uses:				
Loss on asset disposal	0	(13,106)	(13,106)	0
Changes in net assets	(79,894)	(1,706)	(81,600)	421,607
Net assets beginning of year	275,119	24,206	299,325	668,215
Net assets end of year	\$ 195,225	22,500	217,725	1,089,822

SEE NOTES TO FINANCIAL STATEMENTS.

STORM LAKE COMMUNITY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2008

	Business-type Activities - Enterprise Funds			Governmental Activities - Internal Service Fund
	School Nutrition	Community Education	Total	
Cash flows from operating activities:				
Cash received from sale of lunches and breakfasts	\$ 371,332	0	371,332	0
Cash received from miscellaneous operating activities	184	212,141	212,325	2,426,508
Cash payments to employees for services	(68,686)	(157,187)	(225,873)	(2,010,974)
Cash payments to suppliers for goods or services	(935,598)	(43,695)	(979,293)	0
Net cash provided by(used in) operating activities	(632,768)	11,259	(621,509)	415,534
Cash flows from non-capital financing activities:				
State grants received	10,343	0	10,343	0
Federal grants received	597,701	0	597,701	0
Net cash provided by non-capital financing activities	608,044	0	608,044	0
Cash flows from capital and related financing activities:				
Purchase of capital assets	(2,049)	0	(2,049)	0
Cash flows from investing activities:				
Interest on investments	1,214	228	1,442	6,073
Net increase(decrease) in cash and cash equivalents	(25,559)	11,487	(14,072)	421,607
Cash and cash equivalents at beginning of year	147,789	5,976	153,765	668,215
Cash and cash equivalents at end of year	\$ 122,230	17,463	139,693	1,089,822
Reconciliation of operating income(loss) to net cash provided by(used in) operating activities:				
Operating income(loss)	\$ (733,703)	11,172	(722,531)	415,534
Adjustments to reconcile operating income(loss) to net cash provided by(used in) operating activities:				
Commodities consumed	43,087	0	43,087	0
Depreciation	43,760	0	43,760	0
Increase in inventories	(715)	0	(715)	0
Decrease(Increase) in accounts receivable	1,374	(682)	692	0
Increase in accounts payable	5,091	881	5,972	0
Decrease in salary and benefits payable	0	(112)	(112)	0
Increase in unearned revenue	8,338	0	8,338	0
Net cash provided by(used in) operating activities	\$ (632,768)	11,259	(621,509)	415,534
RECONCILIATION OF CASH AND CASH EQUIVALENTS AT YEAR END TO SPECIFIC ASSETS INCLUDED ON COMBINED BALANCE SHEET:				
Current assets:				
Cash and pooled investments	\$ 122,230	17,463	139,693	1,089,822
NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:				

During the year ended June 30, 2008, the District received Federal commodities valued at \$43,087.

SEE NOTES TO FINANCIAL STATEMENTS.

STORM LAKE COMMUNITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

(1) Summary of Significant Accounting Policies

The Storm Lake Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve and special education pre-kindergarten. The geographic area served primarily includes the City of Storm Lake, Iowa, and agricultural territory in Buena Vista and Sac Counties. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

The District's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

For financial reporting purposes, Storm Lake Community School District has included all funds, organizations, agencies, boards, commissions and authorities. The District has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the District. The Storm Lake Community School District has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations - The District participates in a jointly governed organization that provides services to the District but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the Buena Vista and Sac County Assessors' Conference Board.

B. Basis of Presentation

Government-wide Financial Statements - The Statement of Net Assets and the Statement of Activities report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for service.

The Statement of Net Assets presents the District's non-fiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

Restricted net assets result when constraints placed on net assets use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net asset consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources that are imposed by management, but can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest that are restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements - Separate financial statements are provided for governmental, proprietary, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other nonmajor governmental funds.

The District reports the following major governmental funds:

The General Fund is the general operating fund of the District. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenses, including instructional, support and other costs.

The Capital Projects Fund is utilized to account for all resources used in the acquisition and construction of capital facilities, with the exception of those that are financed through enterprise funds.

The District's proprietary funds are the Enterprise, School Nutrition Fund, Community Education Fund and the Internal Service Fund. The Nutrition Fund is used to account for the food service operations of the District while the Community Education Fund is used to account for the community wide education operations of the District. The Internal Service Funds are used to account for health and flexible spending benefits received by District employees.

C. Measurement Focus and Basis of Accounting

The government-wide and proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days after year end.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the District.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments, and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs, and then general revenues.

The proprietary fund of the District applies all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's Enterprise Fund is charges to

customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The District maintains its financial records on the cash basis. The financial statements of the District are prepared by making memorandum adjusting entries to the cash basis financial records.

D. Assets, Liabilities and Fund Balances

The following accounting policies are followed in preparing the financial statements:

Cash, Pooled Investments and Cash Equivalents - The cash balances of most District funds are pooled and invested. Investments are stated at fair value except for the investment in the Iowa Schools Joint Investment Trust which is valued at amortized cost and non-negotiable certificates of deposit which are stated at cost.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, they have a maturity date no longer than three months.

Property Tax Receivable - Property tax in the governmental funds are accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the Board of Education. Delinquent property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget in April of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year.

Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2006 assessed property valuations; is for the tax accrual period July 1, 2007 through June 30, 2008 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2007.

Due from Other Governments - Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants and reimbursements from other governments.

Inventories - Inventories are valued at cost using the first-in, first-out method for purchased items and government commodities. Inventories of proprietary funds are recorded as expenses when consumed rather than when purchased or received.

Capital Assets - Capital assets, which include property, machinery and equipment, are reported in the applicable governmental or business-type activities columns in the government-wide Statement of Net Assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

Asset Class	Amount
Land	\$ 2,000
Buildings	10,000
Land improvements	10,000
Machinery and equipment:	
School Nutrition Fund equipment	500
Other machinery and equipment	1,000

Capital assets are depreciated using the straight line method over the following estimated useful lives:

Asset Class	Estimated Useful Lives (In Years)
Buildings	50 years
Land improvements	20-50 years
Machinery and equipment	5-15 years

Salaries and Benefits Payable - Payroll and related expenditures for teachers with annual contracts corresponding to the current school year, which is payable in July and August, have been accrued as liabilities.

Deferred Revenue - Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represent the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds as well as property tax receivables and other receivables not collected within sixty days after year end.

Deferred revenue on the Statement of Net Assets consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied.

Unearned Revenue - Unearned revenues in the School Nutrition Fund are monies collected for lunches that have not yet been served. The lunch account balances will either be reimbursed or served lunches. The revenue will be considered earned when services are provided. The lunch account balances are reflected on the Statement of Net Assets in the Proprietary Funds.

Compensated Absences - District employees accumulate a limited amount of earned but unused vacation for subsequent use or for payment upon termination, death, or retirement. A liability is recorded when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations or retirements. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2008. The compensated absences liability attributable to the governmental activities will be paid primarily by the General Fund.

Long-term Liabilities - In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column in the Statement of Net Assets.

Fund Balances - In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

Restricted Net Assets - In the government-wide Statement of Net Assets, net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

E. Budgeting and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2008, the District adopted one budget amendment as a reclassification of expenditures between the support services function and the other expenditures function.

(2) **Cash and Pooled Investments**

The District's deposits at June 30, 2008 were entirely covered by federal depository insurance or State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The District is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Education; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

At June 30, 2008, the District had investments in the Iowa Schools Joint Investment trust as follows:

	<u>Amortized Cost</u>
Diversified Portfolio	<u>\$ 8,881,288</u>

The investments are valued at an amortized cost pursuant to Rule 2a-7 under the Investment Company Act of 1940.

Credit risk. The investments in the Iowa Schools Joint Investment Trust were rated Aaa by Moody's Investor's Service.

(3) Interfund Transfers

The detail of transfers for the year ended June 30, 2008 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
Capital Projects: LOSST	Capital Projects: Building Projects	\$ 5,192,091
Debt Service	Capital Projects	<u>298,327</u>
Total		<u>\$ 5,490,418</u>

Transfers generally move revenues from the fund statutorily required to collect the resources to the fund statutorily required to expend the resources.

(4) Iowa School Cash Anticipation Program (ISCAP)

The District participates in the Iowa Schools Cash Anticipation Program (ISCAP). ISCAP is a program of the Iowa Association of School Boards and is designed to provide funds to participating entities during periods of cash deficits. ISCAP is funded by a semiannual issuance of anticipatory warrants, which mature as noted below. The warrant sizing of each school corporation is based on a projection of cash flow needs during the semiannual period. ISCAP accounts are maintained for each participating entity, and monthly statements are provided regarding their cash balance, interest earnings, and amounts available for withdrawal for each outstanding series of warrants. These accounts are reflected as restricted assets on the balance sheet. Bankers Trust Co. NA is the trustee for the program. A summary of the District's participation in ISCAP as of June 30, 2008 is as follows:

<u>Series</u>	<u>Warrant Date</u>	<u>Final Warrant Maturity</u>	<u>Investments</u>	<u>Accrued Interest Receivable</u>	<u>Warrants Payable</u>	<u>Accrued Interest Payable</u>
2007-08B	1/23/2008	1/23/2009	\$ 1,755,617	26,320	1,750,000	28,509
2008-09A	6/26/2008	6/25/2009	2,016,300	765	2,000,000	767
Total			<u>\$ 3,771,917</u>	<u>27,085</u>	<u>3,750,000</u>	<u>29,276</u>

The District pledges its state foundation aid payments and General Fund receipts as security for warrants issued. Repayments must be made when General Fund receipts are received. If a balance is

outstanding on the last date the funds are available to be drawn, then the District must repay the outstanding withdrawal from its General Fund receipts, and must make minimum warrant repayments on the 25th of each month immediately following the final date that the warrant proceeds may be used in an amount equal to 25% of the warrant amount.

The warrants bear an interest rate and the available proceeds of the warrants are invested at an interest rate as shown below:

Series	Interest Rates on Warrants	Interest Rates on Investments
2007-08B	3.750%	3.451%
2008-09A	3.500%	3.469%

(5) Capital Assets

Capital assets activity for the year ended June 30, 2008 is as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 860,325	0	0	860,325
Construction in progress	0	6,442,718	0	6,442,718
Total capital assets not being depreciated	860,325	6,442,718	0	7,303,043
Capital assets being depreciated:				
Buildings	9,939,088	4,400	1,334	9,942,154
Land improvements	954,935	3,397	7,502	950,830
Machinery and equipment	4,478,775	675,722	1,329,370	3,825,127
Total capital assets being depreciated	15,372,798	683,519	1,338,206	14,718,111
Less accumulated depreciation for:				
Buildings	4,062,532	190,577	1,068	4,252,041
Land improvements	624,911	27,377	5,873	646,415
Machinery and equipment	3,380,641	107,341	1,329,370	2,158,612
Total accumulated depreciation	8,068,084	325,295	1,336,311	7,057,068
Total capital assets being depreciated, net	7,304,714	358,224	1,895	7,661,043
Governmental activities capital assets, net	\$ 8,165,039	6,800,942	1,895	14,964,086

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Business-type activities:				
Machinery and equipment	\$ 441,430	2,049	51,878	391,601
Less accumulated depreciation	320,847	43,760	38,772	325,835
Business-type activities capital assets, net	\$ 120,583	(41,711)	13,106	65,766

Depreciation expense was charged by the District as follows:

Governmental activities:		
Instruction:		
Regular		\$ 26,056
Other		15,892
Support services:		
Administration		14,533
Operation and maintenance		3,566
Transportation		47,294
		<u>107,341</u>
Unallocated depreciation		<u>217,954</u>
Total governmental activities depreciation expense		<u>\$ 325,295</u>
Business-type activities:		
Food services		<u>\$ 43,760</u>

(6) Long-Term Liabilities

A summary of changes in long-term liabilities for the year ended June 30, 2008 is as follows:

	Balance Beginning of Year	Additions	Deletions	Balance End of Year	Due Within One Year
Revenue Bonds	\$ 3,055,000	5,600,000	0	8,655,000	0
General Obligation Bonds	6,745,000	0	485,000	6,260,000	500,000
Compensated Absences	0	51,081	0	51,081	51,081
Total	<u>\$ 9,800,000</u>	<u>5,651,081</u>	<u>485,000</u>	<u>14,966,081</u>	<u>551,081</u>

Revenue Bonds Payable

During the year ended June 30, 2008, the District issued an additional \$5,600,000 in local option sales and services tax bonds to help finance costs associated with construction of the new elementary building.

Details of the District's June 30, 2008 local option sales and services tax revenue bonded indebtedness are as follows:

Year Ending June 30,	Bond Issue of May 1, 2007			Bond Issue of April 1, 2008			Total		
	Interest Rates	Principal	Interest	Interest Rates	Principal	Interest	Principal	Interest	Total
2009	3.60 %	\$ -	119,037	3.50 %	\$ -	160,406	-	279,443	279,443
2010	3.60	-	119,037	3.50	480,000	205,475	480,000	324,512	804,512
2011	3.60	-	119,037	3.50	500,000	188,325	500,000	307,362	807,362
2012	3.60	100,000	117,239	3.50	420,000	172,225	520,000	289,464	809,464
2013	3.65	125,000	113,156	3.50	410,000	157,700	535,000	270,856	805,856
2014	3.70	150,000	108,100	3.50	405,000	143,438	555,000	251,538	806,538
2015	3.75	150,000	102,513	3.50	425,000	128,911	575,000	231,424	806,424
2016	3.75	200,000	95,950	4.00	395,000	113,575	595,000	209,525	804,525
2017	3.80	200,000	88,400	4.00	420,000	97,275	620,000	185,675	805,675
2018	3.85	200,000	80,750	4.00	445,000	79,975	645,000	160,725	805,725
2019-23	3.85-4.00	1,930,000	214,650	4.00-4.25	1,700,000	169,201	3,630,000	383,851	4,013,851
Total		<u>\$ 3,055,000</u>	<u>1,277,869</u>		<u>\$ 5,600,000</u>	<u>1,616,506</u>	<u>\$ 8,655,000</u>	<u>2,894,375</u>	<u>11,549,375</u>

The District has pledged future local option sales and services tax revenues to repay the \$8,655,000 bonds issued May 1, 2006 and April 1, 2008. The bonds were issued for the purpose of defraying a portion of the cost of building the new elementary school building. The bonds are payable solely from the proceeds of the local option sales and services tax revenues received by the District and are payable through 2023. The bonds are not a general obligation of the District. However, the debt is subject to the constitutional limitation of the District. Annual principal and interest payments on the bonds are expected to require nearly 24 percent of the local option sales and services tax revenues. The total principal and interest remaining to be paid on the notes is \$11,549,375. For the current year \$79,358 in interest was paid on the bonds and total local option sales and services tax revenues were \$1,171,134.

The resolution providing for the issuance of the local option sales and services tax revenue bonds includes the following provisions:

- a) \$865,500 of the proceeds from the issuance of the revenue bonds shall be deposited to the Reserve Account to be used solely for the purpose of paying principal and interest on the bonds if insufficient money is available in the sinking Account. The balance of the proceeds shall be deposited to the Project Account.
- b) All proceeds from the local option sales and services tax shall be placed in a Revenue Account.
- c) Monies in the Revenue Account shall be disbursed to make deposits into a Sinking Account to pay the principal and interest requirements of the revenue bonds for the fiscal year.
- d) Any monies remaining in the Revenue Account after the required transfer to the Sinking Account may be transferred to the Project Account to be used for any lawful purpose.

General Obligation Bonds Payable

Details of the District's June 30, 2008 general obligation bonded indebtedness are as follows:

Year Ending June 30,	Bond issue of May 1, 2007			Bond issue of May 1, 2003			Total		
	Interest Rates	Principal	Interest	Interest Rates	Principal	Interest	Principal	Interest	Total
2009	4.000 %	\$ -	216,319	2.50-2.65 %	\$ 500,000	17,300	500,000	233,619	733,619
2010	4.000	250,000	216,319	2.80-3.00	260,000	5,240	510,000	221,559	731,559
2011	4.000	345,000	206,319	-	-	-	345,000	206,319	551,319
2012	4.000	360,000	192,519	-	-	-	360,000	192,519	552,519
2013	4.000	375,000	178,119	-	-	-	375,000	178,119	553,119
2014	4.000	390,000	163,119	-	-	-	390,000	163,119	553,119
2015	4.000	410,000	147,519	-	-	-	410,000	147,519	557,519
2016	4.000	425,000	131,119	-	-	-	425,000	131,119	556,119
2017	3.875	440,000	114,119	-	-	-	440,000	114,119	554,119
2018-22	3.875	2,505,000	299,342	-	-	-	2,505,000	299,342	2,804,342
Total		\$ 5,500,000	1,864,813		\$ 760,000	22,540	\$ 6,260,000	1,887,353	8,147,353

(7) Pension and Retirement Benefits

The District contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.90% of their annual salary and the District is required to contribute 6.05% of annual covered payroll for the years ended June 30, 2008, 2007 and 2006. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2008, 2007 and 2006 were \$735,899, \$642,749 and \$606,458 respectively, equal to the required contributions for each year.

(8) Risk Management

The District is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The District assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(9) Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$712,056 for the year ended June 30, 2008 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

(10) Construction Commitment

As of June 30, 2008, costs of \$6,442,718 had been incurred on various construction contracts for District improvements. When construction is completed, the final cost of the projects will be added to the capital assets.

(11) Contingencies

As of June 30, 2008, the District is involved in a lawsuit with a member of the community over construction of the new elementary building. Any subsequent cost associated with this litigation should be covered by insurance. The outcome and eventual liability of the District, if any, from these claims and any unasserted claims is not known at this time; however, management does not believe they will be material to the basic financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

STORM LAKE COMMUNITY SCHOOL DISTRICT
 BUDGETARY COMPARISON OF REVENUES, EXPENDITURES AND
 CHANGES IN BALANCES -
 BUDGET AND ACTUAL - ALL GOVERNMENTAL FUNDS
 AND PROPRIETARY FUNDS
 REQUIRED SUPPLEMENTARY INFORMATION
 YEAR ENDED JUNE 30, 2008

	Governmental	Proprietary	Total Actual	Budgeted Amounts		Final to Actual Variance
	Fund Types	Fund Type		Original	Final	
	Actual	Actual				
Revenues:						
Local sources	\$ 9,610,359	576,069	10,186,428	9,547,373	9,547,373	639,055
State sources	12,220,851	10,343	12,231,194	12,119,324	12,119,324	111,870
Federal sources	2,129,213	642,252	2,771,465	2,475,000	2,475,000	296,465
Total revenues	23,960,423	1,228,664	25,189,087	24,141,697	24,141,697	1,047,390
Expenditures:						
Instruction	14,137,791	7,077	14,144,868	15,329,947	15,329,947	1,185,079
Support services	6,198,574	130,621	6,329,195	6,108,984	8,608,984	2,279,789
Non-instructional programs	6,070	1,159,460	1,165,530	1,374,119	1,374,119	208,589
Other expenditures	7,642,717	0	7,642,717	18,799,790	16,299,790	8,657,073
Total expenditures	27,985,152	1,297,158	29,282,310	41,612,840	41,612,840	12,330,530
Deficiency of revenues under expenditures	(4,024,729)	(68,494)	(4,093,223)	(17,471,143)	(17,471,143)	13,377,920
Other financing sources, net	5,593,375	(13,106)	5,580,269	8,925,000	8,925,000	(3,344,731)
Excess(Deficiency) of revenues and other financing sources over(under) expenditures	1,568,646	(81,600)	1,487,046	(8,546,143)	(8,546,143)	10,033,189
Balance beginning of year	13,441,517	299,325	13,740,842	9,530,617	9,530,617	4,210,225
Balance end of year	\$ 15,010,163	217,725	15,227,888	984,474	984,474	14,243,414

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

STORM LAKE COMMUNITY SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING
YEAR ENDED JUNE 30, 2008

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standard Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds except Private-Purpose Trust and Agency Funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the GAAP basis.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functions not by fund or fund type. These four functions are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not by fund. The Code of Iowa also provides that District expenditures in the General Fund may not exceed the amount authorized by the school finance formula.

During the year ended June 30, 2008, the District made one budget amendment for expense reclassification with no increase in total expenditures.

OTHER SUPPLEMENTARY INFORMATION

STORM LAKE COMMUNITY SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 JUNE 30, 2008

	Special Revenue Funds					Total
	Manage- ment Levy	Student Activity	Physical Plant and Equipment Levy	Total Special Revenue Funds	Debt Service	Other Nonmajor Governmental Funds
ASSETS						
Cash and pooled investments	\$ 233,434	80,229	(78,852)	234,811	20,745	255,556
Receivables:						
Property tax:						
Current year delinquent	3,353	0	1,349	4,702	4,744	9,446
Succeeding year	450,000	0	143,767	593,767	517,700	1,111,467
Income surtax	0	0	125,503	125,503	0	125,503
Accounts	0	0	259,347	259,347	0	259,347
TOTAL ASSETS	\$ 686,787	80,229	451,114	1,218,130	543,189	1,761,319
LIABILITIES AND FUND BALANCES						
Liabilities:						
Accounts payable	\$ 284	0	48,413	48,697	0	48,697
Deferred revenue:						
Succeeding year property tax	450,000	0	143,767	593,767	517,700	1,111,467
Income surtax	0	0	125,503	125,503	0	125,503
Total liabilities	450,284	0	317,683	767,967	517,700	1,285,667
Fund balances:						
Reserved for debt service	0	0	0	0	25,489	25,489
Unreserved	236,503	80,229	133,431	450,163	0	450,163
Total fund balances	236,503	80,229	133,431	450,163	25,489	475,652
TOTAL LIABILITIES AND FUND BALANCES	\$ 686,787	80,229	451,114	1,218,130	543,189	1,761,319

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

STORM LAKE COMMUNITY SCHOOL DISTRICT
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES
 NONMAJOR GOVERNMENTAL FUNDS
 YEAR ENDED JUNE 30, 2008

	Special Revenue Funds					Total
	Manage- ment Levy	Student Activity	Physical Plant and Equipment Levy	Total Special Revenue Funds	Debt Service	Other Nonmajor Governmental Funds
REVENUES:						
Local sources:						
Local tax	\$ 349,006	0	279,667	628,673	498,674	1,127,347
Other	38,527	286,402	714,071	1,039,000	5,505	1,044,505
State sources	239	0	96	335	337	672
TOTAL REVENUES	387,772	286,402	993,834	1,668,008	504,516	2,172,524
EXPENDITURES:						
Current:						
Instruction:						
Regular instruction	63,847	0	0	63,847	0	63,847
Special instruction	29,248	0	0	29,248	0	29,248
Other instruction	0	302,028	0	302,028	0	302,028
Support services:						
Student services	2,793	0	0	2,793	0	2,793
Instructional staff services	17,032	0	50,000	67,032	0	67,032
Administration services	57,209	0	0	57,209	0	57,209
Operation and maintenance of plant services	124,244	0	0	124,244	0	124,244
Transportation services	38,875	0	80,310	119,185	0	119,185
Food service operations	3,541	0	0	3,541	0	3,541
Other expenditures:						
Facilities acquisition	0	0	924,740	924,740	0	924,740
Long-term debt:						
Principal	0	0	0	0	485,000	485,000
Interest and fiscal charges	0	0	0	0	326,352	326,352
TOTAL EXPENDITURES	336,789	302,028	1,055,050	1,693,867	811,352	2,505,219
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	50,983	(15,626)	(61,216)	(25,859)	(306,836)	(332,695)
OTHER FINANCING SOURCES:						
Transfers in	0	0	0	0	298,327	298,327
NET CHANGE IN FUND BALANCE	50,983	(15,626)	(61,216)	(25,859)	(8,509)	(34,368)
FUND BALANCE BEGINNING OF YEAR	185,520	95,855	194,647	476,022	33,998	510,020
FUND BALANCE END OF YEAR	\$ 236,503	80,229	133,431	450,163	25,489	475,652

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

STORM LAKE COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS
 YEAR ENDED JUNE 30, 2008

Account	Balance Beginning of Year	Revenues	Expendi- tures	Balance End of Year
School Musical	\$ 6,240	999	0	7,239
Speech	3,411	3,814	7,225	0
Vocal Music	789	2,120	1,801	1,108
Cheerleaders	4,074	5,766	6,229	3,611
Dance Squad	2,168	14,520	15,628	1,060
Hi Breeze	66	0	0	66
Breeze of 2009	1,795	330	2,125	0
Breeze of 2008	0	17,868	13,420	4,448
Art Club	965	2,927	3,513	379
Kreative Kitchens	968	3,067	2,847	1,188
FACS	2,561	2,654	1,644	3,571
Nado Nook	828	9,964	9,109	1,683
International Club	56	205	63	198
Spanish Club	420	45	147	318
Key Club	178	1,794	1,638	334
Thespian Club	192	71	263	0
Library Club	192	0	192	0
PIC	231	0	39	192
Close-Up	135	0	0	135
Student Council	416	22,372	22,279	509
Class of 2009	0	15,482	14,304	1,178
Class of 2010	0	200	0	200
Class of 2012	968	0	968	0
All State Music	0	3,024	2,962	62
Instrumental Rental	1,186	904	2,090	0
Jazz Band	43	1,005	1,047	1
Chamber Singers	319	0	319	0
Vending Machines	3,990	0	3,990	0
Student Activities	2,672	26,101	26,007	2,766
School Play	1,389	0	1,389	0
Concessions	3,266	0	241	3,025
Interest	264	1,215	1,479	0
Star Club	128	0	128	0
DECA	1,723	11,600	11,790	1,533
Technology Club	584	0	584	0
Instrumental Resale	1	1,361	1,362	0
Alternative HS	1,054	581	597	1,038

STORM LAKE COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS
 YEAR ENDED JUNE 30, 2008

Account	Balance Beginning of Year	Revenues	Expendi- tures	Balance End of Year
VICA Club	183	0	0	183
ACE	3,349	11,901	10,750	4,500
Industrial Arts Club	248	84	332	0
Model UN	275	0	110	165
Guidance Office	656	0	656	0
Orchestra	602	245	295	552
Cross Country	0	1,305	1,305	0
Boys Basketball	0	4,178	4,178	0
Football	0	18,548	18,548	0
Boys Soccer	0	2,171	2,171	0
Baseball	0	11,475	11,475	0
Boys Track	0	5,028	5,028	0
Boys Tennis	0	3,532	3,532	0
Boys Golf	0	1,866	1,866	0
Boys Swimming	0	1,102	1,102	0
Wrestling	0	5,667	5,667	0
Girls Basketball	0	5,425	5,425	0
Volleyball	0	4,105	4,105	0
Girls Soccer	0	2,243	2,243	0
Softball	0	10,033	10,033	0
Girls Track	0	6,267	6,267	0
Girls Tennis	0	1,766	1,766	0
Girls Golf	0	1,754	1,754	0
Girls Swimming	0	1,794	1,794	0
General Athletics	44,422	35,924	44,207	36,139
MS Activities	2,848	0	0	2,848
Total	\$ 95,855	286,402	302,028	80,229

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

STORM LAKE COMMUNITY SCHOOL DISTRICT
 COMBINING BALANCE SHEET FOR CAPITAL PROJECT FUND
 JUNE 30, 2008

	Capital Projects Fund		
	Building Projects	Local Option Sales Tax	Total
Assets			
Cash and pooled investments	\$ 356,303	12,637,021	12,993,324
Receivables:			
Due from other governments	0	180,933	180,933
Total Assets	<u>\$ 356,303</u>	<u>12,817,954</u>	<u>13,174,257</u>
Liabilities and Fund Balances			
Liabilities:			
Accounts payable	\$ 0	2,483	2,483
Fund balances:			
Reserved for construction	356,303	8,209,156	8,565,459
Unreserved fund balance	0	4,606,315	4,606,315
Total fund balances	<u>356,303</u>	<u>12,815,471</u>	<u>13,171,774</u>
Total Liabilities and Fund Balances	<u>\$ 356,303</u>	<u>12,817,954</u>	<u>13,174,257</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

STORM LAKE COMMUNITY SCHOOL DISTRICT
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCE
 CAPITAL PROJECT FUND
 YEAR ENDED JUNE 30, 2008

	Capital Project Fund		
	Building	Local Option	Total
	Projects	Sales Tax	
Revenues:			
Local sources:			
Local option sales and service tax	\$ 0	1,171,134	1,171,134
Interest on investments	0	528,740	528,740
Total revenues	0	1,699,874	1,699,874
Expenditures:			
Current:			
Support services:			
Administration services	0	9,618	9,618
Other expenditures:			
Facilities acquisitions	0	5,194,569	5,194,569
Total expenditures	0	5,204,187	5,204,187
Deficiency of revenues under expenditures	0	(3,504,313)	(3,504,313)
Other financing sources(uses):			
Transfer in	0	5,192,091	5,192,091
Transfer out	(5,192,091)	(298,327)	(5,490,418)
Issuance of revenue bonds	0	5,600,000	5,600,000
Premium on bond issuance	0	45,193	45,193
Discount on bond issuance	0	(34,081)	(34,081)
Bond issuance fees	0	(18,294)	(18,294)
Total other financing sources(uses)	(5,192,091)	10,486,582	5,294,491
Excess(Deficiency) of revenues over(under) expenditures and other financing sources(uses)	(5,192,091)	6,982,269	1,790,178
Fund balance beginning of year	5,548,394	5,833,202	11,381,596
Fund balance end of year	\$ 356,303	12,815,471	13,171,774

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

STORM LAKE COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF REVENUES BY SOURCE AND EXPENDITURES BY FUNCTION
 ALL GOVERNMENTAL FUND TYPES
 FOR THE LAST FIVE YEARS

	Modified Accrual Basis				
	Years Ended June 30,				
	2008	2007	2006	2005	2004
Revenues:					
Local sources:					
Local tax	\$ 6,516,603	6,424,067	6,324,196	6,220,883	5,323,603
Tuition	1,156,687	1,103,062	1,200,001	1,242,735	1,218,276
Other	1,937,069	978,588	880,274	656,852	735,030
State sources	12,220,851	10,507,714	9,284,350	9,058,775	8,356,506
Federal sources	2,129,213	2,218,014	2,429,642	2,140,287	1,478,466
Total	\$ 23,960,423	21,231,445	20,118,463	19,319,532	17,111,881
Expenditures:					
Instruction:					
Regular instruction	\$ 8,394,735	7,461,085	7,357,714	6,886,448	7,011,486
Special instruction	3,063,321	2,655,116	2,543,743	4,012,454	3,923,867
Other instruction	2,679,735	2,641,499	2,704,033	979,714	942,497
Support services:					
Student services	718,580	699,051	611,262	436,231	495,212
Instructional staff services	845,095	661,859	842,155	612,465	191,888
Administration services	2,154,815	2,051,335	1,830,017	1,654,095	1,385,254
Operation and maintenance of plant services	1,844,236	1,688,205	1,744,242	1,525,999	1,334,772
Transportation services	635,848	587,385	405,597	389,466	336,087
Other support services	0	0	0	15,723	92,983
Non-instructional programs:					
Food service operations	3,541	2,988	0	5,000	0
Community service operations	2,529	0	0	51,000	51,000
Other expenditures:					
Facilities acquisitions	6,119,309	564,714	300,168	73,402	557,907
Long-term debt:					
Principal	485,000	475,000	530,000	515,000	520,000
Interest and other charges	326,352	39,456	51,243	60,428	43,490
AEA flow-through	712,056	646,571	591,183	586,325	568,957
Total	\$ 27,985,152	20,174,264	19,511,357	17,803,750	17,455,400

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

STORM LAKE COMMUNITY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2008

GRANTOR/PROGRAM	CFDA NUMBER	GRANT NUMBER	PROGRAM EXPENDITURES
DIRECT:			
DEPARTMENT OF EDUCATION:			
21st CENTURY COMMUNITY			
LEARNING CENTERS	84.287	FY 08	\$ 503,398
SAFE AND DRUG-FREE SCHOOLS AND			
COMMUNITIES - NATIONAL PROGRAMS	84.184	FY 08	2,491
INDIRECT:			
DEPARTMENT OF AGRICULTURE:			
IOWA DEPARTMENT OF EDUCATION:			
SCHOOL NUTRITION CLUSTER PROGRAMS:			
SCHOOL BREAKFAST PROGRAM	10.553	FY 08	125,920
NATIONAL SCHOOL LUNCH PROGRAM	10.555	FY 08	485,914 *
SUMMER FOOD SERVICE PROGRAM FOR CHILDREN	10.559	FY 08	9,440
			<u>621,274</u>
STATE ADMINISTRATIVE MATCHING			
GRANTS FOR FOOD STAMP PROGRAM			
(BASICS - BUILDING AND STRENGTHENING			
IOWA COMMUNITY SUPPORT FOR NUTRITION			
AND HEALTH)			
	10.561	FY 08	11,498
FRESH FRUIT AND VEGETABLE PROGRAM			
	10.582	FY 08	20,978
DEPARTMENT OF EDUCATION:			
IOWA DEPARTMENT OF EDUCATION:			
TITLE I (SINA - SCHOOLS IN NEED			
OF ASSISTANCE)			
	84.010	FY 07	46,622
TITLE I (SINA - SCHOOLS IN NEED			
OF ASSISTANCE)			
	84.010	FY 08	112,083
TITLE I GRANTS TO LOCAL EDUCA-			
TIONAL AGENCIES			
	84.010	6219-G	411,737
			<u>570,442</u>
TITLE I GRANTS TO LOCAL EDUCA-			
TIONAL AGENCIES			
	84.011	6219-M	200,940
TITLE I GRANTS TO LOCAL EDUCA-			
TIONAL AGENCIES			
	84.011	6219-MC	2,425
			<u>203,365</u>
INNOVATIVE EDUCATION PROGRAM			
STRATEGIES (TITLE V PROGRAM)			
	84.151	FY 08	4,566
SAFE AND DRUG-FREE SCHOOLS AND			
COMMUNITIES - STATE GRANTS			
	84.186	FY 08	10,912
EVEN START - STATE EDUCATION			
AGENCIES			
	84.213	FY 07	5,300
EVEN START - STATE EDUCATION			
AGENCIES			
	84.213	FY 08	56,000
			<u>61,300</u>
CHARTER SCHOOLS			
	84.282	FY 08	3,215
SPECIAL EDUCATION - STATE PROGRAM			
IMPROVEMENT GRANTS FOR CHILDREN			
WITH DISABILITIES			
	84.323	FY 08	21,711

STORM LAKE COMMUNITY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2008

GRANTOR/PROGRAM	CFDA NUMBER	GRANT NUMBER	PROGRAM EXPENDITURES
COMPREHENSIVE SCHOOL REFORM DEMONSTRATION	84.332	FY 08	<u>50,000</u>
SPECIAL EDUCATION TECHNICAL ASSISTANCE AND DISSEMINATION TO IMPROVE SERVICES AND RESULTS FOR CHILDREN WITH DISABILITIES	84.326	FY 08	<u>1,460</u>
READING FIRST STATE GRANTS	84.357	FY 08	<u>103,937</u>
TITLE IIA - FEDERAL TEACHER QUALITY PROGRAM	84.367	FY 08	<u>72,661</u>
GRANTS FOR STATE ASSESSMENTS AND RELATED ACTIVITIES (TITLE VI)	84.369	FY 08	<u>14,063</u>
PRAIRIE LAKES AREA EDUCATION AGENCY: IOWA DEPARTMENT OF EDUCATION: SPECIAL EDUCATION - GRANTS TO STATES (PART B)	84.027	FY 08	<u>124,712</u>
ENGLISH LANGUAGE ACQUISITION STATE GRANTS (TITLE III)	84.365	FY 08	<u>142,436</u>
IOWA CENTRAL COMMUNITY COLLEGE: IOWA DEPARTMENT OF EDUCATION: EVEN START - STATE EDUCATION AGENCIES	84.213	FY 08	<u>18,980</u>
DEPARTMENT OF HEALTH AND HUMAN SERVICES: IOWA DEPARTMENT OF EDUCATION: PROMOTING SAFE AND STABLE FAMILIES (DHS DECATORIZATION)	93.556	FY 08	<u>1,701</u>
TOTAL			<u>\$ 2,565,100</u>

* includes \$43,087 of non-cash awards

Basis of Presentation - The Schedule of Expenditures of Federal Awards includes the federal grant activity of the Storm Lake Community School District and is presented in conformity with the accrual or modified accrual basis of accounting. The information on this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

NOLTE, CORNMAN & JOHNSON P.C.

Certified Public Accountants

(a professional corporation)

117 West 3rd Street North, Newton, Iowa 50208-3050

Telephone (641) 792-1910

Independent Auditor's Report on Internal Control over Financial Reporting and on
Compliance and Other Matters Based on an Audit of Financial Statements Performed in
Accordance with Government Auditing Standards

To the Board of Education of the
Storm Lake Community School District:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Storm Lake Community School District as of and for the year ended June 30, 2008, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated March 6, 2009. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Storm Lake Community School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of Storm Lake Community School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Storm Lake Community School District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies and other deficiencies we consider to be material weaknesses.

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects Storm Lake Community School District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with U.S. generally accepted accounting principles such that there is more than a remote likelihood a misstatement of Storm Lake Community School District's financial statements that is more than inconsequential will not be prevented or detected by Storm Lake Community School District's internal control. We consider the deficiencies in internal control described in Part II of the accompanying Schedule of Findings and Questioned Costs to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies that results in more than a remote likelihood a material misstatement of the financial statements will not be prevented or detected by Storm Lake Community School District's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we believe item II-A-08 is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Storm Lake Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part IV of the accompanying Schedule of Findings and Questioned Costs.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2008 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Storm Lake Community School District's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the District's responses, we did not audit Storm Lake Community School District's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Storm Lake Community School District and other parties to whom Storm Lake Community School District may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Storm Lake Community School District during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.


NOLTE, CORNMAN & JOHNSON, P.C.

March 6, 2009

NOLTE, CORNMAN & JOHNSON P.C.
Certified Public Accountants
(a professional corporation)
117 West 3rd Street North, Newton, Iowa 50208-3050
Telephone (641) 792-1910

Independent Auditor's Report on Compliance with Requirements Applicable
to Each Major Program and Internal Control over Compliance
in Accordance with OMB Circular A-133

To the Board of Education of
Storm Lake Community School District

Compliance

We have audited the compliance of Storm Lake Community School District with the types of compliance requirements described in U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2008. Storm Lake Community School District's major federal programs are identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grant agreements applicable to each of its major federal programs is the responsibility of Storm Lake Community School District's management. Our responsibility is to express an opinion on Storm Lake Community School District's compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether non-compliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Storm Lake Community School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Storm Lake Community School District's compliance with those requirements.

In our opinion, Storm Lake Community School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2008.

Internal Control Over Compliance

The management of Storm Lake Community School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grant agreements applicable to federal programs. In planning and performing our audit, we considered Storm Lake Community School District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Storm Lake Community School District's internal control over compliance.

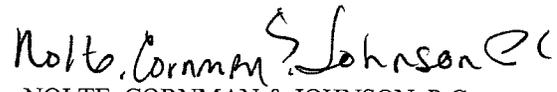
Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the District's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified a deficiency in internal control over compliance that we consider to be a material weakness.

A control deficiency in the District's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to administer a federal program such that there is more than a remote likelihood noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the District's internal control. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item III-A-08 to be a significant deficiency.

A material weakness is a significant deficiency, or combination of significant deficiencies that results in more than a remote likelihood material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the District's internal control. We consider the significant deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item III-A-08 to be a material weakness.

Storm Lake Community School District's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. While we expressed our conclusions on the District's responses, we did not audit Storm Lake Community School District's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Storm Lake Community School District and other parties to whom Storm Lake Community School District may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.


NOLTE, CORNMAN & JOHNSON, P.C.

March 6, 2009

STORM LAKE COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2008

Part I: Summary of the Independent Auditor's Results

- (a) Unqualified opinions were issued on the financial statements.
- (b) Significant deficiencies in internal control over financial reporting were disclosed by the audit of the financial statements, including a material weakness.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.
- (d) A significant deficiency in internal control over major programs were disclosed by the audit of the financial statements, including a material weakness.
- (e) An unqualified opinion was issued on compliance with requirements applicable to each major program.
- (f) The audit did not disclose any audit findings which were required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) Major programs were as follows:
 - Clustered
 - CFDA Number 10.553 - School Breakfast Program
 - CFDA Number 10.555 - National School Lunch Program
 - CFDA Number 10.559 - Summer Food Service Program for Children
 - Individual
 - CFDA Number 84.010 - Title I Grants to Local Educational Agencies
 - CFDA Number 84.287 - 21st Century Community Learning Centers
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) Storm Lake Community School District did not qualify as a low-risk auditee.

STORM LAKE COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2008

Part II: Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

SIGNIFICANT DEFICIENCIES:

II-A-08 Segregation of Duties - One important aspect of the internal control structure is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that the cash receipts listing, bank deposits and the posting of the cash receipts to the cash receipts journal were all done by the same person.

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. However the District should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response - We will continue to review and implement new procedures, when possible, to achieve the maximum segregation with existing personnel.

Conclusion - Response accepted.

II-B-08 Checks Outstanding - We noted during our audit that the District had checks included in the bank reconciliations that have been outstanding for over a year.

Recommendation - The District should determine if the outstanding checks should be reissued, voided or submitted to the State as unclaimed property. If the checks are submitted as unclaimed property, the District must do so annually before November 1st as required by Chapter 556.1(10) and 556.11 of the Code of Iowa.

Response - The District will follow auditor recommendation.

Conclusion - Response accepted.

II-C-08 Gate Admissions - Although the District utilizes pre-numbered tickets for all event admissions, it appeared that ticket takers responsible for cash collections at the gate were not reconciling pre-numbered tickets to cash collected and not signing off on the reconciliation before giving custody of the change box to the Athletic Director.

Recommendation - The exchange in custody of the change box from the ticket takers to the Athletic Director with no reconciliation procedures being performed by the ticket takers constitutes a breakdown in control procedures. The District should review internal control procedures established for handling cash for all activity events and communicate the procedures to the individuals involved.

At the end of the event, cash should be counted and reconciled by two or more individuals (usually the ticket takers) to pre-numbered tickets sold including the amount of the beginning cash. A reconciliation form should be completed and signed off by the individuals responsible for counting and reconciling the cash. The cash and change box should then be turned into the Athletic Director or designee responsible for the accounting function at the event.

Response - We have reviewed our procedures and this has been corrected.

Conclusion - Response accepted.

I-D-08 Student Activity Fund - During our audit issues arose about the properness of certain accounts or certain receipts and expenditures collected/paid from the Student Activity Fund. Inappropriate expenditures would include any expenditure more appropriate to other funds. Per Chapter 9 of the LEA Financial Accounting Manual, "The student activity fund shall not be used as a clearing account for any other fund. This is not an appropriate fund to use for public tax funds, trust funds, state and federal grants or aids, textbook/library book fines, fees, rents, or sales, textbook/library book purchases, sales of school supplies, curricular activities, or any other revenues or expenditures more properly included in another fund. Moneys in this fund shall be used to support only the cocurricular program defined in department of education administrative rules (298A.8)." Fundraisers and donations made to the school should be recorded in the fund in which they could be expended.

Recommendation - The purpose of the Student Activity Fund is to account for financial transactions related to the cocurricular and extracurricular activities offered as a part of the education program for the students established under Iowa Administrative Code 281-12.6(1). More specific examples of these instances of questioned items and recommendations are as follows:

The Student Activities account appears to be an account that is more administratively maintained rather than maintained by a student run organization. Expenditures from this account for staff meals and staff travel reimbursement appear to be administrative in nature. These expenditures would be more appropriate from the General Fund. The District should review expenditures made from this account for allowability according to guidelines mentioned above.

There appear to be instructional classes conducting business transactions within the District. Accounting of these businesses is maintained in the Student Activity Fund. Examples of these classes include the economics class operating an all day concession stand and the business class for career development operating a coffee shop. Since these activities are part of the instructional curriculum the transactions of these businesses should be maintained in the General Fund.

The District receives money for use of facilities when hosting district and regional events. Currently the District's practice is to receipt rents for hosting district and regional events into the Student Activity Fund. Chapter 297.9 of the Code of Iowa requires rent to be receipted into the General Fund. In the future, the District should receipt rent collected for facility usage into the General Fund.

The Student Council account awards a scholarship from proceeds from fundraising during the year. When fundraising takes place the revenues should be recorded in the fund that may legally pay for the purpose of the fundraiser. Scholarships are most appropriately paid from the Private Purpose Trust Fund; therefore, proceeds from scholarship fundraising should be placed and expended from the Private Purpose Trust Fund.

When the District writes checks for scholarship awards, the check is written to the student only. A better practice would be for the District to write the check to the individual and the college/university the student is attending once the student has supplied proof of attendance to the District.

The District should review the properness of receipts and expenditures that are recorded in the Student Activity Fund. The District should also review procedures that are in place in regards to the Activity Fund and follow the suggested recommendations to gain compliance and better internal controls.

Response - We have reviewed procedures and expenditures for the Student Activities fund and will make adjustments to comply with the recommendation.

The District has taken steps to create by laws, officers and vision/mission statements to establish these as student run clubs.

The District has reviewed procedures and will receipt rent into the General Fund.

The District has reviewed this matter; the scholarship to be awarded will not be donated to the District, rather it will be donated to a local outside organization for disbursement.

Conclusion - Response accepted.

STORM LAKE COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2008

Part III: Findings and Questioned Costs For Federal Awards:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

SIGNIFICANT DEFICIENCIES:

CFDA Number 10.553: School Breakfast Program and
CFDA Number 10.555: National School Lunch Program
CFDA Number 10.559: Summer Food Service Program for Children
Federal Award Year: 2008
U.S. Department of Agriculture
Passed through the Iowa Department of Education

CFDA Number 84.010: Title I Grants to Local Educational Agencies
Federal Award Year: 2008
U.S. Department of Education
Passed through the Iowa Department of Education

CFDA Number 84.287: 21st Century Community Learning Centers
Federal Award Year: 2008
U.S. Department of Education

III-A-08 Segregation of Duties - One important aspect of the internal control structure is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that the cash receipts listing, bank deposits and the posting of the cash receipts to the cash receipts journal were all done by the same person.

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. However the District should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response - We will continue to review and implement new procedures, when possible, to achieve the maximum segregation with existing personnel.

Conclusion - Response accepted.

STORM LAKE COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 YEAR ENDED JUNE 30, 2008

Part IV: Other Findings Related to Required Statutory Reporting:

IV-A-08 Certified Budget - District disbursements for the year ended June 30, 2008, did not exceed the amount budgeted.

IV-B-08 Questionable Disbursements - We noted during our audit that the District wrote checks from the Student Activity Fund that were subsequently cashed to buy gift cards/gift certificates to give to students as prizes. Gift cards/gift certificates do not appear to meet public purpose as defined in the Attorney General's opinion dated April 25, 1979.

Recommendation - The District should review the procedures in place, and make necessary adjustments to comply.

Response - We will review our procedures to ensure that prizes will be nonmonetary in nature.

Conclusion - Response accepted.

IV-C-08 Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.

IV-D-08 Business Transactions - Business transactions between the District and District officials or employees are detailed as follows:

Name, Title and Business Connection	Transaction Description	Amount
Barb Seiler, Board Member Spouse owns Seiler Plumbing	Plumbing services	\$58,814
Becky Stille, Teacher Spouse co owner Stille, Pierce & Pertzborn Insurance Agency	Insurance premiums	\$219,943
Jolene Davis, Teacher Spouse owns Buena Vista Stationery	Supplies	\$42,063
Sharon Butterfield, Teacher Spouse owns Silkscreen Ink	Supplies	\$14,748

In accordance with the Attorney's General's opinion dated November 9, 1976, the above transactions with the spouse of the Board Member does not appear to represent a conflict of interest.

IV-E-08 Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

IV-F-08 Board Minutes - We noted no transactions requiring Board approval which have not been approved by the Board.

IV-G-08 Certified Enrollment - We noted a variance in the basic enrollment data certified to the Department of Education. The number of students which were open enrolled out was overstated by one student.

Recommendation - The District should contact the Iowa Department of Education and the Department of Management to resolve this matter.

Response - We will contact the Iowa Department of Education and the Department of Management.

Conclusion - Response accepted.

IV-H-08 Deposits and Investments - We noted no instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy.

IV-I-08 Certified Annual Report - The Certified Annual Report was filed with the Department of Education timely and we noted no significant deficiencies in the amounts reported.